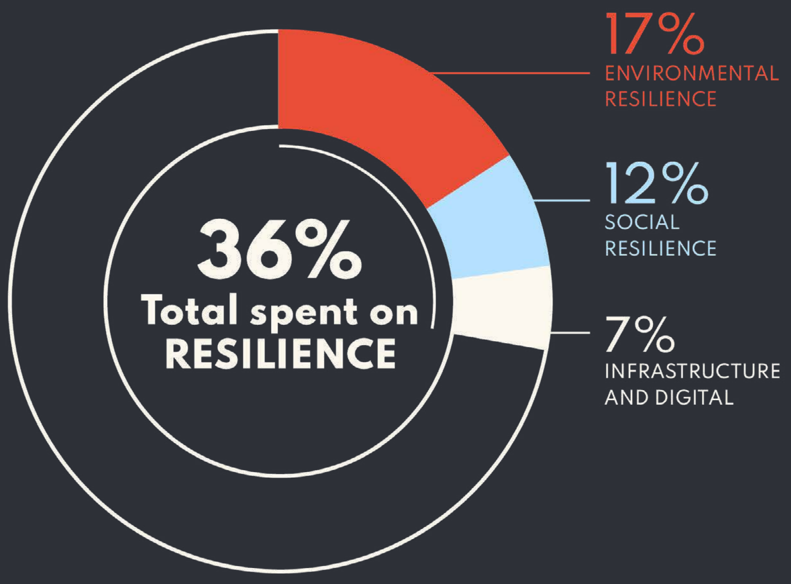
rethink the recovery

# SHAPING THE FUTURE OR MISSING THE PAST: HOW RESILIENT ARE NATIONAL FISCAL PLANS OF GERMANY, FRANCE, AND SPAIN?

## Of the €302 billion aggregate spending:




Finance Watch
Making finance serve society

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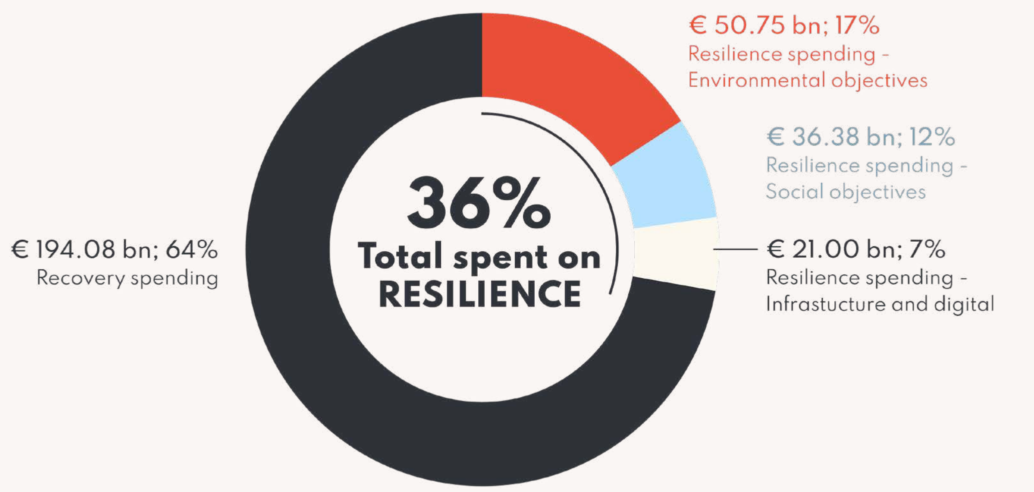
# AGGREGATED ANALYSIS RESULTS

Finance Watch has analysed the fiscal plans put in place by the French, German and Spanish **governments.** The plans aim to help repair the immediate economic and social damage brought about by the coronavirus pandemic as well as make their respective economies more sustainable and resilient to future shocks. The plans will be partially financed by the funds provided by the Next Generation EU Recovery and Resilience Facility (RRF) in accordance with the criteria defined by the RRF Regulation. The **aggregated funding** of the three fiscal plans amounts to **around €302 billion.**

Finance Watch assessed the proposed policy measures of France, Germany and Spain on their environmental and social sustainability as well as contribution to economic recovery vs resilience objectives. For this, the time horizon over which the measures are expected to have their effect (long-term vs short-term), and the alignment with the strategic objectives were taken into account. Such objectives include, among others, the reduction of greenhouse gas emissions, energy transition, digital transformation, social sustainability[1]. **Resilience measures** were defined as long-term oriented and expected to have transformative economic effects rather than restore the pre-crisis economic situation, which is the main objective of recovery-oriented measures.

Based on the analysis, the **breakdown of the aggregated fiscal spending of €302 billion** is as follows:




1 Expert judgement was used to execute the assessment. No account of the starting conditions in the country was taken, which might accelerate or slow down the transition towards sustainability and resilience.

## Summarizing the results of the Finance Watch review:

- **Resilience-oriented measures account for roughly 36%** of the aggregate fiscal plan spending across France, Germany and Spain with the remaining 64% of the funds being directed towards recovery objectives.

- Policy measures, which received the largest budget allocations, are to a large extent driven by **short-term considerations** such as supporting the demand side of the economy (social benefits in Germany and Spain) or ensuring competitiveness of the national industry (France).

- **The plans offer a weak long-term environmental sustainability component** compared to the overall amount of spending (for all countries reviewed); the link of the proposed policy measures to the country's strategic climate and energy goals has not been established (France, Germany).

- The cohesion objectives of the plan dominate over economic transformation goals (Spain).

- Case evidence suggests the funds have already been used to the benefit of powerful industry players rather than transform the overall economic structure and ensure its resilience to future shocks. Noteworthy examples include:

  - Air France bailout without legally binding conditions imposed
  - Lufthansa bailout with no specific business oversight conditions from the government
  - Loan for the multinational conglomerate Thyssen-Krupp
  - Luxury cruise shipbuilder MV Werften bailout without receiving guarantees that job cuts will be avoided (also refer to the comments by Euractiv)
  - Loan guarantees for the hotel chain NH Hotels
  - Loan and loan guarantees for the airline Iberia & Vueling
  - Loan for the football club Real Madrid.

The measures put in place as per the plans should be viewed in the broader context of the EU economic governance and fiscal framework. The framework comprises a complex architecture of rules constraining Member States' fiscal policy, combined with a system of governance and tools aimed at enforcing these rules. The most significant of these rules are the 60% limit on the government debt-to-GDP ratio and the 3% limit on the budget deficit-to-GDP ratio, including the corresponding adjustment mechanisms in case of limit deviations. These limits do not properly account for the economic cycle, quality of spending and impacts that environmental and social imbalances have on long-term debt sustainability. Thus, the existing **fiscal framework reinforces policy short-termism and prevents the EU countries from reaching their social and environmental goals.** Even though the rules were temporarily suspended due to the pandemic situation, potential return to fiscal austerity could **break the recovery.**

**Conclusions reached by Finance Watch are consistent with...**

- **the following expert assessments and databases:**
  - Institute for Sustainable Development and International Relations (France, Germany, Spain) analysis
  - Greenness of Stimulus Index produced as part of the Finance for Biodiversity Initiative (F4B) to assess if the global pandemic stimulus measures will help boost global resilience to climate and biodiversity risks
  - Government support to clean vs fossil fuel energies since the beginning of the pandemic: Energy Policy Tracker
  - Green Recovery Tracker by Wuppertal Institute and E3G – Third Generation Environmentalism
  - A Sustainable Recovery Plan for the Energy Sector 2021–2023, by the International Energy Agency, in cooperation with the IMF
  - IMF database summarising key fiscal measures governments have announced or taken in selected economies in response to the COVID-19 pandemic
- **and opinions:**
  - Greenpeace's Three tests for Europe's Covid recovery plans
  - Institut Veblen pour les réformes économiques
  - Reaction of the Nicolas Hulot Foundation on the recovery plan and 5 conditions for success and 3 key sectors to regulate
  - Greenpeace: Relance : l'écologie laissée en plan
  - Friedrich-Ebert-Stiftung (FES) expressed reservations with respect to transformational nature of the French fiscal measures
  - The Conversation, an independent news organization
  - German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung)
  - News portal watson referring to academic sources
  - Alfons Pérez from the association Observatory on Debt in Globalisation (ODG)
  - Ecologists in Action (jointly with ODG)

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## About Finance Watch

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of financial regulation by conducting advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch's members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large number of European citizens. Finance Watch's founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, but that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, see www.finance-watch.org

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